

28. Derivative contracts

Details of the Group's risk management processes are outlined in risk management and internal control on pages 37 and 38.

Gains and losses on fair value hedges that qualify for special hedge accounting are recognised immediately in the income statement. For hedges of a net investment, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity through the SORIE. Any ineffective portion is reported immediately in the income statement.

	2006			2005		
	Notional amount £mn	Assets £mn	Liabilities £mn	Notional amount £mn	Assets £mn	Liabilities £mn
Interest rate contracts	1,475.0	3.3	3.2	2,389.9	0.7	1.0
Forward foreign exchange contracts	960.2	13.9	6.6	1,063.2	5.4	11.3
Equity contracts	228.3	15.4	15.8	2,423.6	11.1	10.5
Commodity contracts	47.5	2.1	2.1	–	–	–
	2,711.0	34.7	27.7	5,876.7	17.2	22.8
Less non-current portion:						
Interest rate contracts	(43.7)	–	–	(41.2)	–	–
Forward foreign exchange contracts	(16.0)	–	–	(12.4)	–	–
Equity contracts	(184.0)	(14.9)	(14.9)	(108.6)	(3.0)	(3.0)
Commodity contracts	(41.6)	(2.1)	(2.1)	–	–	–
Non-current portion	(285.3)	(17.0)	(17.0)	(162.2)	(3.0)	(3.0)
Current portion	2,425.7	17.7	10.7	5,714.5	14.2	19.8

The Group's exposure to credit risk is represented by the carrying amount of the assets.

The carrying amounts of the Group's derivative contracts are denominated in the following currencies:

	2006 £mn	2005 £mn
Sterling	49.6	17.3
US dollar	6.7	17.6
Euro	0.1	1.4
Swiss franc	4.4	3.1
Japanese yen	1.1	0.1
Other	0.5	0.5
	62.4	40.0

Interest rate contracts

The Group's interest rate swap contracts are held for customer facilitation by Private Banking subsidiaries. The notional principal amounts held at 31 December 2006 in respect of Private Banking subsidiaries are £1,460.1 million (2005: £2,367.1 million) with a weighted average period to maturity of 0.3 years (2005: 0.1 years).

The remainder of the Group's interest rate contracts are either held for the purpose of hedging the interest rate risk inherent in contracts entered into by the Group's leasing companies or for hedging seed capital investments against interest rate movements.

The notional principal amounts held at 31 December 2006 in respect of leasing arrangements were £3.7 million (2005: £15.5 million), and those in respect of seed capital were £11.2 million (2005: £7.3 million). The weighted average periods to maturity of these amounts were 8.8 years (2005: 4.7 years) and 0.2 years (2005: 0.2 years) respectively.

Forward foreign exchange contracts

The Group has a number of overseas subsidiaries whose equity, revenues and expenses are denominated principally in local currencies. Financial instruments are used within the Group where it is considered that the sterling values of such amounts are at risk. In such cases, forward currency contracts were being used at 31 December 2006 to hedge £170.2 million (2005: £204.3 million) of underlying foreign currency assets. The weighted average period to maturity of such instruments was 0.3 years (2005: 0.4 years). In relation to the Group's hedging of its seed and liquid capital investments, at 31 December 2006, the Group has forward currency contracts with a total value of £491.1 million (2005: £396.9 million) hedging against currency movements. The weighted average period to maturity of such instruments was 0.1 years (2005: 0.1 years).

Notes to the Accounts

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28. Derivative contracts (continued)

Private Banking subsidiaries hold fully matched foreign exchange contracts for the purposes of customer facilitation. Such contracts amounted to £295.2 million at 31 December 2006 (2005: £452.4 million) and had a weighted average period to maturity of 0.4 years (2005: 0.3 years). Forward foreign exchange contracts are also used to hedge individual instances of exposure to currency risk that may arise in the course of business. At 31 December 2006, the notional amounts held in respect of such exposures was £3.7 million (2005: £9.6 million). The weighted average period to maturity of such contracts was 0.4 years (2005: 0.2 years).

Equity contracts

The Group's equity contracts held by Private Banking subsidiaries are held for customer facilitation. The notional principal amounts held at 31 December 2006 in respect of Private Banking subsidiaries were £215.7 million (2005: £2,423.6 million). The weighted average period to maturity of this amount was 2.0 years (2005: 0.2 years). In relation to the Group's hedging of its seed and liquid capital investments, at 31 December 2006, the Group has equity contracts with a total value of £12.6 million (2005: £nil) hedging against market movements. The weighted average period to maturity of such investments was 0.2 years (2005: nil).

Commodity contracts

The Group's commodity contracts are held for customer facilitation by Private Banking subsidiaries. The notional principal amounts held at 31 December 2006 in respect of Private Banking subsidiaries were £47.5 million (2005: £nil). The weighted average period to maturity of this amount was 2.1 years (2005: nil).

The following gains/(losses) have been reported directly through equity during the year:

	2006 £mn	2005 £mn
Forward foreign exchange contracts	32.2	(26.9)

The following gains/(losses) have been reported through the income statement during the year:

	2006 £mn	2005 £mn
Equity contracts	(3.5)	(1.3)
Forward foreign exchange contracts	35.2	(26.1)
	31.7	(27.4)

29. Share capital

	Number of shares Units	Ordinary shares £mn	Non-voting ordinary shares £mn	Total shares £mn	Share premium £mn
At 1 January 2006	298,471,751	226.0	72.5	298.5	32.1
Shares issued	4,154,782	—	4.2	4.2	23.6
Shares cancelled	(8,750,660)	—	(8.8)	(8.8)	(19.3)
At 31 December 2006	293,875,873	226.0	67.9	293.9	36.4

	2006 Number	2005 Number	2006 £mn	2005 £mn
Authorised:				
Ordinary shares of £1 each	226,022,400	226,022,400	226.0	226.0
Non-voting ordinary shares of £1 each	113,977,598	113,977,598	114.0	114.0
Subscriber shares of 1p each	—	200	—	—
	339,999,998	340,000,198	340.0	340.0
Allotted, called up and fully paid:				
Ordinary shares of £1 each	226,022,400	226,022,400	226.0	226.0
Non-voting ordinary shares of £1 each	67,853,473	72,449,151	67.9	72.5
Subscriber shares of 1p each	—	200	—	—
	293,875,873	298,471,751	293.9	298.5

Rights of each class of share

The two classes of ordinary share capital are equal in all but two respects: the non-voting ordinary shares do not have voting rights and hence their holders are not entitled to attend or to vote at general meetings of the Company, and, on a capitalisation issue, non-voting ordinary shares carry the right to receive non-voting ordinary shares rather than ordinary shares.

Holders of the subscriber shares had no right to participate in the profits or assets of the Company and were not entitled to vote at general meetings of the Company, although they were entitled to receive notice of and attend such meetings. The subscriber shares were cancelled during the year.

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30. Own shares

Employee trusts have been established for the purposes of satisfying certain share-based awards. At 31 December 2006, the employee trusts held 8,444,416 (2005: 9,127,227) non-voting ordinary shares costing £73.9 million (2005: £67.7 million), with a market value of £88.3 million (2005: £81.7 million). In addition, the employee trusts held 3,494,308 (2005: nil) ordinary shares costing £35.1 million (2005: £nil), with a market value of £39.0 million (2005: £nil). Dividends on shares held by the employee trusts are waived.

Movements during the year were as follows:

						Own shares held
						£mn
At 1 January 2006						(45.7)
Own shares purchased						(90.8)
Own shares disposed						45.6
At 31 December 2006						(90.9)

	2006			2005		
	Number of shares Units	Cost £mn	Market value £mn	Number of shares Units	Cost £mn	Market value £mn
Group						
Shares funded by employing companies	1,989,639	18.1	20.8	2,023,203	22.0	18.1
Own shares	9,949,085	90.9	106.5	7,104,024	45.7	63.6
	11,938,724	109.0	127.3	9,127,227	67.7	81.7
Company						
Own shares	7,938,934	71.9	85.3	6,815,161	44.0	61.0

31. Other reserves

	Other reserves ³ £mn	Net exchange differences £mn	Retained profits £mn	Capital reserves £mn	Total £mn
At 1 January 2006	—	12.2	860.2	185.5	1,057.9
Profit after tax	—	—	221.9	—	221.9
Minority interests	—	—	(0.6)	—	(0.6)
Dividends	—	—	(63.4)	—	(63.4)
Retained profit for the year after minority interests and dividends	—	—	157.9	—	157.9
Currency translation differences	—	—	(45.5)	(20.4)	(65.9)
Currency translation differences transferred to net exchange differences	—	(65.9)	45.5	20.4	—
Actuarial gains on defined benefit pension schemes	—	—	5.5	—	5.5
Net gains on available-for-sale investments ¹	—	—	65.2	—	65.2
Tax on actuarial gains on defined benefit pension schemes	—	—	(1.7)	—	(1.7)
Tax on Equity Compensation Plan and share option awards	—	—	8.3	—	8.3
Net income and expense recognised directly in equity	—	(65.9)	77.3	—	11.4
Gains on hedges recognised directly in equity	—	—	32.2	—	32.2
Consideration payable in the form of ordinary shares	15.1	—	—	—	15.1
Share-based payments	—	—	27.5	—	27.5
Share-based payments vested	—	—	(15.0)	—	(15.0)
Cancellation of non-voting ordinary shares	—	—	(61.4)	5.2	(56.2)
Amounts recycled through the income statement ²	—	—	(28.2)	—	(28.2)
Impairments of available-for-sale investments recycled through the income statement	—	—	1.4	—	1.4
Transfers	—	—	34.4	(34.4)	—
At 31 December 2006	15.1	(53.7)	1,086.3	156.3	1,204.0

¹ Includes £1.5 million in respect of associates (see note 12).

² Includes £3.5 million in respect of associates (see note 12).

³ Other reserves represent shares to be issued in respect of the acquisition of NewFinance Capital Holdings Limited (see note 38).